Virtual AGM

RHB BANK BERHAD 196501000373 (6171-M)

58th ANNUAL GENERAL MEETING

Minority Shareholders Watch Group ("MSWG")'s Questions via letter dated 3 May 2024

10 May 2024

1. As of the end of FY2023, the Group’s loan loss coverage (LLC) ratio, excluding regulatory reserve, dropped to 71.7% from 112.8% in the previous year. The ratio, an indicator of a bank’s ability to absorb potential losses from non-performing loans, was also below the pre-pandemic level of circa 85%.

   Generally, Malaysian banks record an LLC ratio of around 100% (excl. regulatory reserve) or above 150% for certain banks.

   The concern of the low LLC is whether the Group has adequately provided for any potential loan loss in the future and the ability to absorb any short-term increase in the gross impaired loans (GIL) ratio.

a) RHB's allowance for credit losses on financial assets was lower at RM301.53 million compared to RM421.18 million (page 9, Financial Report 2023). Banks may shore up their LLCs by providing higher provisions for impaired loans, advances and financing (LAF).

Why did RHB not provide a higher allowance for LAF in FY2023 to ensure LLC is on par with the industry level? Please guide shareholders on RHB's asset quality in FY2024.

RHB Bank's Response:

- *LLC with regulatory reserves should be used to assess the adequacy of overall provisions for assets (incl. loans) as the regulatory reserves are set aside in capital.*
- *LLC with regulatory reserves are above 100%, indicating we have at least 1x coverage for impaired accounts.*
- *Moving forward, the Group intends to sharpen its asset quality management and potentially increase LLC in foreseeable future, pursuant to our initiatives in managing asset quality.*
- *The Group will continue to exercise prudence in our lending policy where the focus has always been on secured or highly collateralised financing.*

b) The Edge Malaysia Weekly reported that RHB's management expects LLC to improve to around 100% after it restructures a specific corporate loan.

(Source: RHB Bank's low LLC ratio a point of discomfort for some analysts, The Edge Malaysia Weekly on December 4, 2023 - December 10, 2023)

RHB Bank's Response:

- *We are committed to assist our customers in their difficult times, and the successful restructuring & rescheduling plans with the customers will improve the relevant ratios, including LLC and GIL.*

- *Due to the uncertainties in such R&R plans, we are unable to comment on the completion time.*

I. What is the size of the corporate loan, the client's business activities, the operating country and the industry involved?

RHB Bank's Response:

- *The Corporate borrowers mentioned in the report are operating in Malaysia, and are from Transportation and Construction segments.*
- *However, we are unable to comment on the size of corporate loans for these borrowers.*

II. What led to the impairment of this loan? What steps were taken to recover the loan before the Group impaired it?

RHB Bank's Response:

- *The affected borrowers' business was severely impacted by COVID-19 pandemic, which resulted in the tight cashflow and thus unable to meet loan repayments.*

- *The Bank has worked with these borrowers to restructure and reschedule their loan repayment during the pandemic to ease the burden of the loan repayment, prior to loans being impaired.*

III. How does RHB Bank restructure the account, and the progress of restructuring? Ultimately, what is the optimal LLC that the Bank is looking at?

RHB Bank's Response:

- *The Group will continue to focus on maintaining credit discipline and intensify efforts in recovery and collection. Nevertheless, we will continue to facilitate the vulnerable borrowers and monitor their repayment behavior.*

Optimal LLC:

- *Prior to the pandemic, the Group's LLC (excluding Regulatory Reserves) was at 85.7% in 2019.*
- *In 2020, LLC increased to 119.7% mainly due to additional provisions which was set aside as pre-emptive provisions to cater for the potential adverse impact of COVID-19 ("management overlay").*
- *In 2023, we have reversed all the COVID-related management overlay and LLC has reduced to 71.7%.*
- *Moving forward, the Group intends to sharpen its asset quality management and potentially increase LLC in foreseeable future, pursuant to our initiatives in managing asset quality.*

c) What will be the impact of this on RHB's credit cost? Please provide management guidance on net credit cost for FY2024.

RHB Bank's Response:

- *The Group will continue to exercise prudence in our lending policy where the focus has always been on secured or highly collateralised financing, thus conserving the provisions required.*
- *As we remain cautious of external factors such as the uncertainty in US monetary policy stance, inflationary pressures and escalation of geopolitical conflicts, our guidance for FY2024 credit cost is between 20 bps and 25 bps.*

2. The Group International Business turned loss-making in FY2023 with a loss before tax (LBT) of RM182.6 million compared to a profit before tax (PBT) of RM425.2 million in FY2022, mainly due to higher ECL and operating expenses. Almost all overseas markets posted deteriorating asset quality except Brunei.

   a) Notably, RHB Thailand saw its gross impaired loan (GIL) ratio spike to 24% from 4.3% in FY2022, resulting in an LBT of THB2.94 billion (FY2022: PBT of THB148.9 million) (page 96 of IR2023).

   I. The size of impaired LAF increased by 320% to RM344.85 million from RM82.03 million a year ago (page 62, FR2023).

   Why did the Thai market record a significant deterioration in asset quality? Was the deterioration in asset quality an industry-wide phenomenon? Which economic sector did RHB Thailand see weakness in loan repayment?

RHB Bank's response:

- *Deterioration of asset quality in Thailand has arisen from a combination of various factors such as downside risk of the SME segment stemming from the high interest rate environment and the sluggish economy.*

- *Most of the repayment assistance programmes in our portfolio had expired and notably the larger corporates thrived and weathered through the hard times. However, as for the SME segment, many of these borrowers continued to struggle and some to the extend defaulted and/or non-performing.*

ii. Were the loans extended to these affected clients collateralised? What is the visibility of writing back the impairment or realising the value of collaterals?

RHB Bank's response:

- *There is a mixture of collaterised and non-collaterised loans, recovery is expected to take several years due to the expected lengthy recovery process.*

b) Which overseas markets will pose greater challenges to the Group in FY2024? Please briefly comment on the outlook for these markets by earnings growth, loan growth and asset quality.

RHB Bank's response:

- *Fitch Ratings expect the Thai banking sector's impaired-loans ratio to remain stressed in 2024 and 2025 as businesses continue to reel from the post-pandemic effects. Further, macroeconomic risks remain high in Cambodia, in view of the economy's high external dependence on China.*

1. Boost Bank, a joint venture between RHB and Axiata Group, received approval from Bank Negara Malaysia and the Ministry of Finance to commence operations as a digital bank effective 15 January 2024.

   Since then, Boost Bank has entered the alpha testing phase involving internal employees, family, friends, and a selected group of customers.

   a) Launched on 30 November 2023, GX Bank is the first digital bank launched to the Malaysian public.

      For now, GX Bank seems well-received by the Malaysian public with its ease of account opening, cashback benefits, and highly hyped savings rate.

      What key observations did Boost Bank spot on from GX Bank's six-month operation?

RHB Bank's response:

- *As the digital banks are still early in their launch phase, GX Bank, similar to Boost Bank has started out by getting the basics right i.e. setting up a stable mobile app and offering simple financial products such as saving accounts.*

- *Both GX Bank and Boost Bank are also similar in that both are also part of wider ecosystems and as such, will be able to leverage on existing e-wallet customers to build up their initial deposit base.*

b) How many users are involved in the alpha testing phase? What are the preliminary outcomes of the testing? When will Boost Bank be ready for mass launch?

Is Boost Bank under pressure to launch its service as soon as possible to gain the first mover advantage?

RHB Bank's response:

- *Boost Bank has completed its alpha testing phase involving approximately 500 testers from Boost Bank, RHB and Axiata employees.*
- *As part of ensuring Boost Bank is ready for public launch, testers were asked to try out various app features particularly around account opening, in-app functions and key security features. Feedback gathered were used to improve and enhance customer journeys prior to public launch, which will be announced very soon.*

RHB Bank's response cont'd:

- *Boost Bank's primary focus is to ensure that the app functions seamlessly and securely for customers. Coupled with Boost Bank's ecosystem proposition and expertise in serving the MSME segments, this will form a natural competitive advantage in the digital banking landscape.*

1. RHB’s exposure to ESG Sensitive Sectors (ESS) increased to RM17.7 billion (FY2022: RM16.3 billion), representing 15.9% (FY2022: 15.4%) of the non-retail loan/financing portfolio (page 53 of SR2023, page 39 of SR2022).

a) Among the customers from ESS, what is the percentage of customers with ESG risk ratings of “Low Risk,” “Medium Risk,” and “High Risk” (page 49 of SR2023)? Does the Group cap the financing exposure to ESS? If yes, what is the optimal level?

RHB Bank’s response

- *Almost all of our non-retail customers are classified Low or Medium ESG risk as we have put in place internal policy and tools put to manage our ESG Risk. Customers that fall under High ESG Risk are classified Exceptional Credits; nevertheless, our exposure of High ESG risk is not material (less than 1% of our non-retail exposures).*

b) Meanwhile, the Group achieved a cumulative mobilisation of over RM23.8 billion in sustainable financial services, surpassing its earlier target of RM20 billion.

What is the ratio between green and transition finance of RHB's sustainable financial loan book?

RHB Bank's response

- *As at 31 December 2023, we achieved RM23.8 billion in Sustainable Financial Services, of which 48% in Green, Social 26%, and ESG-linked 26%.*

- *The 48% of the green category includes financing of low carbon projects and activities (transition finance) such as Renewable Energy, Energy Efficiency, Climate Change Adaptation and Clean Transportation, which is equivalent to approximately RM2.6 billion of RHB's green assets and 0.4 % of the Group's total outstanding loan portfolio.*

2. As part of the Group Climate Action Programme (GCAP), RHB has enhanced the ESG Risk Assessment (ERA) tool in FY2023 to include Sector Level Questionnaires (SLQs), which will be progressively implemented across the Group commencing Q1 FY2024. There are 10 sector-specific questionnaires and one generic questionnaire (page 48 of SR2023).

   How different was the enhanced ESG risk assessment methodology compared to the eight industry-specific ERA tools adopted previously (page 49 of SR2022)?

   Please elaborate on the comprehensiveness and robustness of the enhanced ERA in assessing clients' sustainability and climate-related risks and managing the underwriting risks better.

RHB Bank's response:

- As part of GCAP, we have enhanced our ESG Risk Assessment ("ERA") tool to include Sector Level Questionnaires ("SLQs") and that enable us to conduct both qualitative and qualitative assessments on our clients' climate and ESG risk from 10 high impact sectors.

- These assessments covers categories such as clients' biodiversity and water management policies, GHG emissions, energy consumption, water utilisation, etc. which are also aligned with the BNM's Climate Change Principle and Taxonomy ("CCPT") and Due Diligence Questionnaire ("DDQ").

- Please refer to our Sustainability Report 2023 (Page 48-52) for the details of our SLQs.

3. In FY2023, RHB completed the financed emissions baseline exercise according to the Group's portfolio as of 31 December 2022. The exercise concluded that the total Absolute Financed Emissions generated by seven asset classes in FY2022 was 9,260 KTCO2e (page 110 of SR2023).

   However, we noted that the Bank did not provide general information such as the size of financing and investment, the emission intensity, and the data quality score for each asset class.

   In addition, the financed emissions data for FY2023 was unavailable in SR2023. Please explain the reason for not including the related data from the most recently concluded financial year.

RHB Bank’s response :

- *RHB’s size of financing and investment represented by FYE2022 financed emissions baseline is equivalent to over RM 255 billion, which is about 60% of our total financing exposure of the 5 high impact sectors as at 31 December 2022.*

  - *RHB’s FYE2022 Financed Emission intensity is 36.3 tCO_2e/RM million. The Group has made a conscious decision for emissions intensity to be tracked and monitored internally for purpose of decision making in ensuring that we meet the Group's Financed Emissions reduction target and achieve our decarbonisation strategy*

- *The Group's Asset Classes average data quality scores is 4.31;*
  - *RHB’s Financed Emission calculation methodology is based on the Partnership for Carbon Accounting Financials (PCAF) methodology, which is currently the widely-accepted industry standard for calculation of financed emissions.*
  - *The PCAF Standard includes a data quality scale from 1 (highest certainty / best score) to 5 (lowest certainty / lowest score).*

RHB Bank's response cont'd:

- *Climate-related data for purpose of calculating Financed Emissions particularly under Frameworks such as PCAF involves several challenges due to complexity and variability of climate related data. Some notable challenges are data availability and quality, sectorial differences and methodogical issues i.e. finding the right emission factors for the different sectors, technology and tools. PCAF utilises proxy data to close in these gaps to generate the estimated emissions, based on industry average emissions factors.*

- *The Group is taking appropriate steps to address these challenges and to effectively calculate and managed our financed emissions, such as improving data collection and reporting, assessing advanced tools and technology as well as enhancing client and stakeholder engagement*

1. Based on disclosure on pages 34 – 36 of Sustainability Report 2023, it was learned that non-independent non-executive director Tan Sri Ong Leong Huat @ Wong Joo Hwa did not attend any sustainability-related matters training or knowledge sessions in FY2023. The disclosure in the Sustainability Report 2022 (pages 30 & 31) pointed to the same observation.

   As the competency and expertise of Board members are critical to the success of the Group's sustainability and climate journey, why did Tan Sri Ong not attend any sustainability-related training for two consecutive years?

RHB Bank's response :

Tan Sri Ong is a valued member of the Board of RHB Bank Berhad. Tan Sri is no stranger to sustainability matters and is well equipped on the subject matter having been a director on public listed companies for more than 20 years. He also holds the Capital Markets and Services Representative's licence issued by the Securities Commission of Malaysia under the Capital Markets and Services Act 2007 and was also formally a director on the Board of Bursa Malaysia Berhad from 2008 to 2015. In addition, Tan Sri was previously a member of the Securities Market Consultative Panel of Bursa Malaysia.

RHB Bank's response cont'd:

The Board always recognizes Tan Sri as an active contributor to the Board on many subjects, including and not limited to, Sustainability matters. In fact, Tan Sri has always been involved in many internal presentations and updates on sustainability agenda carried out by the in-house sustainability team as well as external consultants. These lengthy discussions and informative sessions usually took place during Board meetings and are part of the Board's meeting agenda. Tan Sri has never shied away from giving his constructive views and seeking further understanding during these discussions and deliberations on sustainability matters. For FY2023, Tan Sri had also completed the following training programmes which are very important towards the RHB's long-term business sustainability:

RHB Bank's response cont'd :

Training programme	Topics covered
Invest Malaysia 2023: Series 2 Organised by Bursa Malaysia	○ Rethinking the 5G Model – Building Tomorrow's Infrastructure, Today ○ Cloud as an Enabler of Digitalisation in Malaysia (for sustainable future) ○ Case Studies – How Companies Approach Cloud Transformation
Emerging Risks in the Financial Industry	○ Differences between emerging & emerged risks (incl. ESG risk) ○ Risk dimension & scope ○ Key trends in managing the risks
Anti-Bribery & Corruption	○ Laws governing bribery & corruption ○ Internal policies and procedures (Governance & Internal Controls) ○ Whistleblowing channels ○ Gifts & Hospitality

RHB Bank’s response cont’d :

Additionally, Tan Sri Ong attended two Board of Directors’ briefings in 2023 with regards to RHB's Sustainable Financial Services commitment and Net Zero Strategy and Decarbonisation Pathways. The briefings also include, among others, industry developments such as the National Energy Transition Roadmap (NETR), the government's directives towards Net Zero and also the Net Zero agenda within the financial sector.

As a Director, Tan Sir has always ensured he is equipped with the required knowledge and skillset to positively contribute towards internal discussions and deliberations. In line with capacity building under the Group directors’ training plan, Tan Sri has also registered for the upcoming Mandatory Accreditation Programme - Part II: ‘Leading for Impact (LIP)’ to be held on 13 & 14 May 2024, which focused on sustainability agenda. The Board, with assistance from the Board Nominating & Remuneration Committee, has always put emphasise on the directors’ training needs, based on the on-going assessment and also outcome of the Board Effectiveness Evaluation exercise conducted on annual basis.

“We valued all your inputs and concerns.”

Thank you for your active remote participation in the 58th AGM.